NORDSTROM'S BLUNDER • WHY INSTANT-WINS WORK • NY SHOW REPORT

JUNE 1990

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

What's wrong with BIG-LEAGUE INCENTIVES

86TH YEAR, VOL. 164, NO. 6

INCENTIVE

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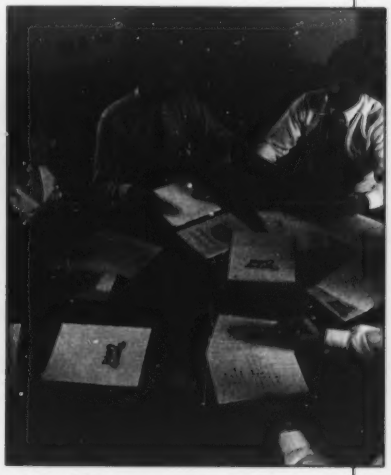

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FROM THE EDITOR

THE CORPORATE CONNECTION

BY BRUCE BOLGER

For more than 10 years before joining **Incentive** magazine, I held various management posts for other business publications. During that time, I occasionally had the responsibility for buying business gifts and incentive awards for customers and employees. I found the task rather cumbersome, because though my editorial responsibilities put me in touch with numerous segments of the business world, I had never heard of incentive representatives, distributors or retail incentive divisions.

After joining **Incentive**, I learned that for decades sales and marketing executives had turned to the incentive channel to purchase awards and business gifts. I learned about incentive companies and sales promotion agencies that help companies improve performance through motivation and promotion programs. I discovered the existence of incentive representatives and distributors, and retailer and direct-mail catalogue incentive divisions that could supply awards and special services, such as drop-shipping to recipients and promotional material.

It occurred to me that many other executives outside of sales and marketing also might be in the dark regarding the incentive business—an idea that was confirmed by a random phone survey we conducted of executives with cash incentive budgets.

So, to help educate corporate America about the incentive channel, **Incentive** has created The Corporate Connection, a cooperative effort of leading incentive suppliers. Enclosed in this issue, starting on page 37, The Corporate Connection details the many sources through which your company can buy incentive awards and programs. It also includes catalogue sheets from leading suppliers that you can use to order awards.

The Corporate Connection is not a new incentive catalogue designed to compete with those already on the market; it's designed to educate newcomers about the incentive business and to give them an opportunity to try it. Once they know about the business, they will know who to call the next time they need awards.

We have enclosed The Corporate Connection in an issue of **Incentive** for the benefit of recent subscribers who may not know about the incentive channel. Tens of thousands more will be mailed to executives who do not subscribe to the magazine.

The purchase of awards is only a small part of what it takes to motivate customers and employees—which is why executives should be aware of an industry ready to simplify the process.

Bruce Bolger

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NON-SALES INCENTIVES

Merchandise use surges, yet users prefer a mixed awards bag.

There's both good and bad news on the non-sales incentives front. Growth in total spending has increased only slightly, but one category, merchandise, is having a stellar year.

According to **Incentive**'s 1990 FACTS survey of non-sales incentives, overall spending rose by 4.6 percent. In addition, the average cost of an incentive award dropped slightly: Respondents tag the price at $345, just a dollar less than in 1989's study, but the median has tumbled mightily—to $50— compared with last year's $75.

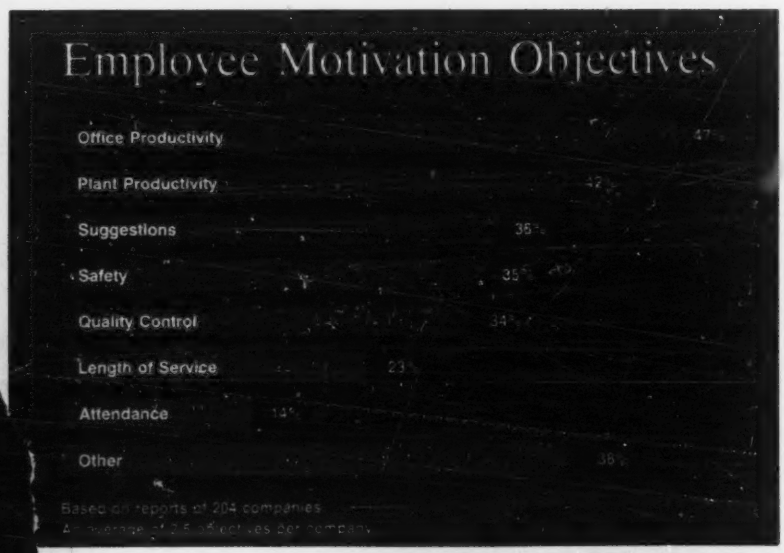
Merchandise is the only award category showing growth this year, up 14.5 percent, and the statistics are supported by respondents' comments about their own award programs. A Western utility company, for example, says it is doubling this year's budget in order to award more merchandise. A Midwestern machinery manufacturer has allocated more than 90 percent of its budget to merchandise in its safety program, sprinkling in a few cash awards as well. "We have seen significant improvement in safety performance because of the award program," a spokesperson says.

One big reason companies may be increasing their merchandise awards: the Tax Reform Act of 1986, which made merchandise particularly attractive as prizes for safety awards. Under the law, merchandise valued up to $400—and more in some cases—presented in the guise of safety and length-of-service awards is tax-deductible to the company and excluded from employees' taxable income. (A bill now in Congress would extend tax advantages to productivity awards as well.) Cash awards, however, are not deductible and must be reported as employee income.

EMPLOYEE MOTIVATION

In spite of the increase in merchandise awards, cash still represents the largest single award category and is used by 57 percent of the firms surveyed. This reliance on cold hard dollars has been declining, however, and the most recent survey shows programs using non-cash categories outnumbering campaigns that dispense cash.

Most heavy users of cash awards also include some merchandise and travel prizes, according to the survey. About 35 percent select merchandise items, 32 percent buy plaques and jewelry, 27 percent offer travel and 25 percent use incentive award catalogues.



One respondent, the Mann Packing Co. Inc., Salinas, Calif., a broccoli grower and packer, displays a typical award mix in its incentive programs. The firm uses a variety of merchandise, travel, recognition and cash awards for 250 production and service employees. Merchandise dominates productivity-based programs, while incentive travel concludes service-oriented campaigns. Cash accounted for less than 10 percent of the company's awards this year.

Mann's food-service division director, David L. Stidolph, says program results are excellent. "Our attendance has improved, as well as our individual safety records," he says. "Our workers played a key role in lowering insurance [premiums], such as worker's compensation." The

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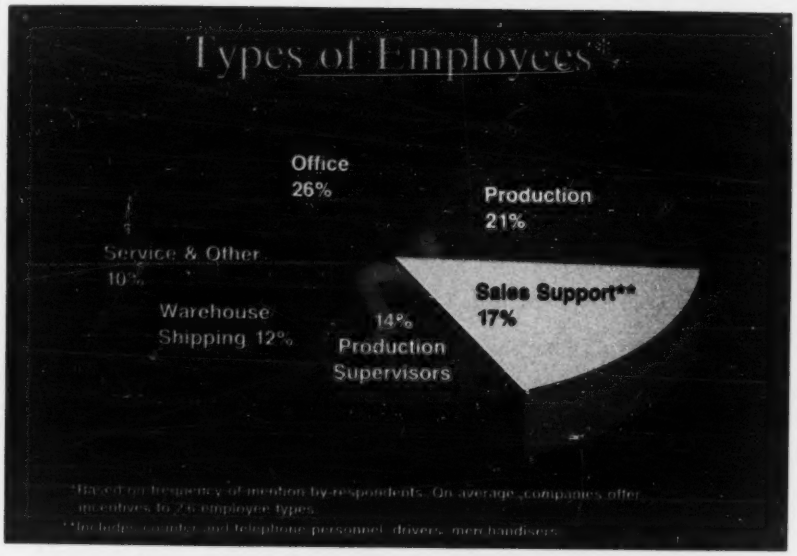


From offices to factories, most non-sales programs are taking aim at productivity.

company now believes it can achieve a perfect safety record, "which before incentives was deemed almost impossible," says Stidolph.

Although more employees participated in award programs in this year's survey, a smaller percentage of participants actually earned awards. An average of 76 percent of a company's employees had the chance to win awards, an increase from the 59 percent reported a year ago. The change could be attributed to the fact that these companies are somewhat larger than the sample used last year. But the average number of employees earning awards, however, dropped to 42.5 percent from last year's 46 percent.

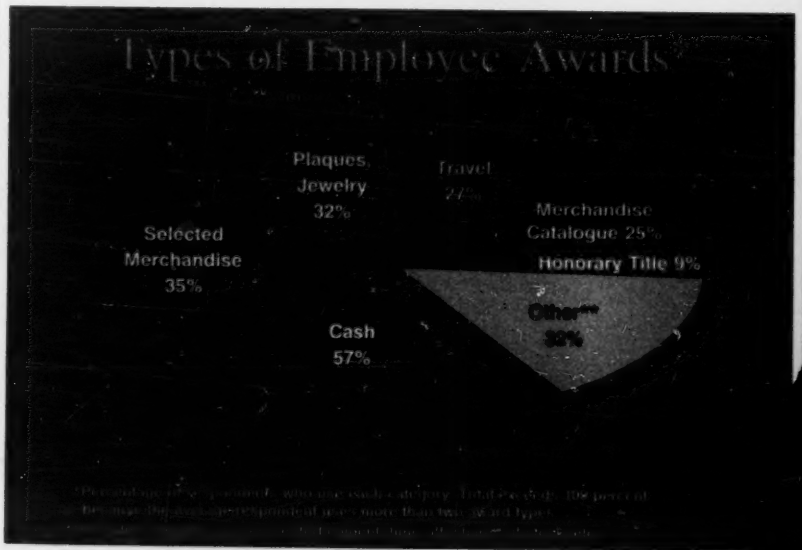
The dominant objectives for non-sales incentives remain productivity-driven. Forty-seven percent of respondents target increased office productivity; 42 percent aim at plant efficiency.

The survey revealed that companies who increase productivity via incentives often observe other results too, such as a boost in the quality of products or services. "The use of employee motivation awards has increased the level of production and quality throughout our plant and office," claims Suzanne Zaccone, president of Graphic Solutions Inc., Burr Ridge, Ill. "Using a clearly structured plan—complete with attainable goals—has offered our employees the opportunity to see where we are, where we are going and how we will get there. Knowing that there is a 'pot of gold' at the end of the rainbow seems to be an incredible motivating tool. We have also noticed an increased awareness of cost savings and time savings, and a more cohesive team effort."

A specialty-chemical manufacturer, offering both merchandise and cash awards to 2,000 office and plant workers, also has witnessed big improvements: "They now go out and look for problems to solve," says an official.

Incentives have also been influencing employee loyalty, some firms report. Alloy Founders Inc., a Maumee, Ohio, machinery manufacturer with 40 employees, has produced this benefit with a very modest award budget for merchandise and plaques. "We use employee incentives to recognize service time so that employees feel appreciated and so that new, younger employees see that the company can provide long-term security," general manager Gregory C. Dozer says. "Our industry requires a great deal of job training—five years and up—[for workers] to become efficient and productive. We can't afford to expend a great deal of time and energy on short-term employees."

In other survey findings, companies noted that while award costs usually take a small slice out of a company's overall operating costs, they tend to bring about large payoffs. In some cases, results are immediately evident—in such areas as reduction of insurance rates, or waste elimination through quality control. Typical example: An executive at a Midwestern insurance company relates that merchandise and travel awards have spurred the office staff



to make insightful productivity suggestions, and he adds that while the program cost is low, "we have experienced an improvement in quality control, fewer errors and a feeling of job satisfaction from doing well and being recognized."

All 800 employees at Jewish Home and Hospital, Bronx, N.Y., are involved in two six-month campaigns each year to promote suggestions, safety and attendance. Merchandise and recognition awards range from $10 to $50 in value and are won by 10 to 15 percent of the workers. An executive reports that this modest program has led to "better employee relations and attendance—an increase in 'feeling' about the institution and the patients we serve."

The criteria for selecting winners, naturally, varies widely from company to company. Respondents report using an average of almost two measures per company. Individual achievement is the measure of choice, employed by 63 percent of respondents. Thirty-seven percent set overall goals and select achievers who reach these, while another 35 percent reward teams, dividing the workforce by small groups or departments. Supervisors' evaluation—certainly a more subjective approach— is chosen by 25 percent, 22 percent reward individuals on the basis of improvement over their previous records, and 11 percent prefer evaluation by other, unspecified measures.

Companies that reward sales-support personnel report take a somewhat different tack. "It has been very difficult for us," reports Larry L. Primavera, president of Ervin Supply Corp., a Chattanooga, Tenn., wholesaler, "to come up with programs that award inside personnel other than outside sales and order-department sales. We now take 50 percent of what we will spend on a promotion and put it into a fund for a drawing for all employees except salespeople, and the other 50 percent is used to reward the person selling, whether it's inside sales or outside sales."

The Ervin program targets office, counter, warehouse and other service people, appealing for office productivity, service quality and suggestions. Three-quarters of the awards are merchandise and travel, the rest cash. They range in value from $5 to $65, but there is a $1,500 travel prize. About half of the 45 employees earn awards, says Primavera, and "it has caused a lot of excitement in our company, since everyone has an opportunity to win a trip or grand prize."

Most companies in the survey promote their incentive plans actively through several channels, using an average of almost 2.5 of five ways listed in the questionnaire. Seventy-five percent make announcements at employee meetings, 51 percent hang notices on bulletin boards, 43 percent rely on supervisors, 43 percent feature campaigns in company publications and 20 percent mail information to employees' homes. Also, 69 percent of respondents report staging continuous award programs, although they usually take aim at different objectives; the remainder use short-term campaigns that run a median of eight weeks, twice a year.

When the time comes to dole out awards, the majority of respondents make the most of it. Sixty percent bestow them during company-wide gatherings; 43 percent do so during department meetings. Some 41 percent publish information on winners in company publications, 34 percent post the news on bulletin boards and 11 percent issue press releases. About 30 percent make private presentations.

Although the buyers of non-sales award programs vary from company to company, the final decision seems to waft upward, into top-management offices. This year, 59 percent of respondents said the final word on purchasing awards is made by the company president or other top manager. Last year, 66 percent named top management, indicating that more companies may be delegating the responsibility to middle managers. Division or department heads make the decision in 23 percent of all companies, human-resources managers in 12 percent, and plant or production managers in 7 percent. □